


THE AUSTRALIAN

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5898.6000	\$0.76	\$2.29	\$0.15

Rich philanthropists halted at border by tax system

STIRLING LARKIN THE AUSTRALIAN APRIL 04, 2015 12:00AM

Easter can mean different things to many people but the common link appears to be that it is a time to connect with family, community and people who may be less fortunate than ourselves.

An important consideration within contemporary wealth management is that philanthropy is far more than simply giving money to charities or idly allocating a percentage of one's income or revenue towards a particular cause.

But what is of great concern is that when attempting to confront international challenges, the current Australian philanthropic model appears to be fatally flawed and in urgent need of attention.

Philanthropic investment structures were formally recognised and established in Australia via what came to be known as prescribed private funds (PPFs) under the Howard government in mid-2001.

The attraction of PPFs included tax deductions for contributions, a recognition that such contributions should be income tax exempt and that the higher burdens of what is referred to as public fundraising — which is another framework altogether — need not apply to these specific and well-defined legal entities.

Even with a simplification of this process in 2009 when PPFs were amended to become what is now known as private ancillary funds (PAFs), this newer progressive model still fell short. This is basically because Australian philanthropists are unduly restricted when it comes to funding initiatives, projects or endeavours outside of Australia's borders — the terms of reference for Australian PAFs remain domestically biased. On this, the Council on Foundations, which is a major philanthropic peak body in the United States, has, on many occasions, singled out the Australian system as an example of one that is particularly restrictive when compared with jurisdictions such as the US, Canada or the United Kingdom.

While it is obviously important to assure that appropriate safeguards have been put in place, an enhanced framework that welcomes international philanthropy would allow Australian ultra-high net worth (UHNW) families and foundations to positively engage with others abroad.

The current firewalling and prohibitions placed on Australian private sector initiatives means that the Australian government becomes our only true outlet for regional and international development. This is not the role of government in a professed liberalised free-market democracy such as the Australian commonwealth. An updated framework could support rather than inhibit the contribution which Australian philanthropy can make beyond our borders. Existing Australian income-tax exempt trusts and foundations are required to pursue their objectives and incur their expenditure principally in Australia.

What this means in practice is that a majority of their grant-making must be within Australia, which is problematic if they wish to focus their efforts on international causes.

Even more punitively, for those entities with deductible gift recipient status, such as private or public ancillary funds, the restrictions are even more challenging as these must be established and operated only within Australia.

The only bureaucratic loophole lies within the Overseas Aid Gift Deduction Scheme (OAGDS) which allows Australians to make tax deductible donations to a relief fund only in a recognised developing country'

Approval also needs the consent of our government's minister for foreign affairs. In practice, this means that the only way in which a private or public ancillary fund can support international philanthropy is by distributing to another organisation, within Australia, which operates an approved and government-sanctioned overseas aid fund.

Using such an arrangement involves paying a fee, often in the range of 7-10 per cent of the amount distributed, to the organisation operating the approved overseas aid fund.

This implicit tax results in fewer funds reaching their desired recipients. We could do a lot better than this current system.

Whatever Easter means to you, rejoice in the knowledge that there are always new ways to connect with humanity.

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